

**Audit Results From  
CAFR and Single Audit Procedures**

**Department of Education**

**For the Year Ended  
June 30, 2003**

**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY**

**Department of Audit  
Division of State Audit**

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**Department of Education  
For the Year Ended June 30, 2003**

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**Department of Education  
For the Year Ended June 30, 2003**

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**EXECUTIVE SUMMARY**

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**Finding**

The department did not adequately document its monitoring of subrecipient activities related to the Vocational Education Program. Management did not have a tracking system for ensuring that all portions of the evaluation instrument were completed and that improvement plans were received.

This report addresses reportable conditions in internal control and noncompliance issues found at the Department of Education during our annual audit of the state's financial statements and major federal programs. The scope of our audit procedures at the Department of Education was limited. During the audit for the year ended June 30, 2003, our work at the Department of Education focused on the Education Trust Fund, a major fund in the *Comprehensive Annual Financial Report* of the State of Tennessee. Our audit of the fund included determining whether the department had an adequate system of internal control over financial reporting. We also performed certain audit procedures to obtain reasonable assurance about whether the State of Tennessee's financial statements were fairly presented. In addition, our work at the Department of Education included four major federal programs: Title I Grants to Local Educational Agencies, Vocational Education\_Basic Grants to States, Innovative Education Program Strategies, and Improving Teacher Quality State Grants. We audited these federally funded programs to determine whether the department complied with certain federal requirements and whether the department had an adequate system of internal control over the programs to ensure compliance. Management's response is included following the finding.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

June 10, 2004

The Honorable Phil Bredesen, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

The Honorable Lana Seivers, Commissioner

Department of Education

Suite 600, Andrew Johnson Tower

Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith are the results of certain limited procedures performed at the Department of Education as a part of our audit of the *Comprehensive Annual Financial Report* of the State of Tennessee for the year ended June 30, 2003, and our audit of compliance with the requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement.

Our review of management's controls and compliance with laws, regulations, and the provisions of contracts and grants resulted in a certain finding which is detailed in the Finding and Recommendation section.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

03/082



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
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December 15, 2003

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have performed certain audit procedures at the Department of Education as part of our audit of the financial statements of the State of Tennessee as of and for the year ended June 30, 2003. The scope of our work included the Education Trust Fund, a major fund in the *Comprehensive Annual Financial Report* of the State of Tennessee. Our objective was to obtain reasonable assurance about whether the State of Tennessee's financial statements were free of material misstatement. We emphasize that this has not been a comprehensive audit of the Department of Education.

We also have audited certain federal financial assistance programs as part of our audit of the state's compliance with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement. The following table identifies the State of Tennessee's major federal programs administered by the Department of Education. We performed certain audit procedures on these programs as part of our objective to obtain reasonable assurance about whether the State of Tennessee complied with the types of requirements that are applicable to each of its major federal programs.

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**Major Federal Programs Administered by the  
Department of Education  
For the Year Ended June 30, 2003  
(in thousands)**

CFDA Number	Program Name	Federal Disbursements
84.010	Title I Grants to Local Educational Agencies	\$140,620
84.048	Vocational Education_Basic Grants to States	\$22,331
84.298	Innovative Education Program Strategies	\$7,377
84.367	Improving Teacher Quality State Grants	\$31,714

Source: State of Tennessee's Schedule of Federal Financial Assistance for the year ended June 30, 2003.

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We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

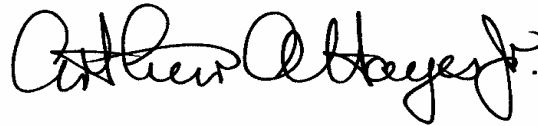
We have issued an unqualified opinion, dated December 15, 2003, on the State of Tennessee's financial statements for the year ended June 30, 2003. We will issue, at a later date, the State of Tennessee *Single Audit Report* for the same period. In accordance with *Government Auditing Standards*, we will report on our consideration of the State of Tennessee's internal control over financial reporting and our tests of its compliance with certain laws, regulations, and provisions of contracts and grants in the *Single Audit Report*. That report will also contain our report on the State of Tennessee's compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB Circular A-133.

As a result of our procedures, we identified certain internal control and/or compliance issues related to the major federal programs at the Department of Education. Those issues, along with management's response, are described immediately following this letter. We have reported other less significant matters involving the department's internal control and instances of noncompliance to the Department of Education's management in a separate letter.

The Honorable John G. Morgan  
December 15, 2003  
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This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA,  
Director



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## FINDING AND RECOMMENDATION

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### **The department did not adequately document its monitoring of subrecipient activities related to the Vocational Education Program**

#### **Finding**

The Department of Education did not adequately document its monitoring of subrecipient activities related to the Vocational Education Program. The department has developed a monitoring cycle, based upon risk criteria, that uses a five-part evaluation instrument to document the monitoring visit. The evaluation instrument includes a fiscal review, Carl Perkins compliance assessment, business/industry assessment, vocational program assessment, and an applied academics program assessment, if applicable. However, management did not have a tracking system for ensuring that all portions of the evaluation instrument were completed and that improvement plans were received. Also, testwork on documentation covering 28 monitoring visits revealed the following:

- The department could not provide 17 of 129 applicable parts (13.2%) of the evaluation instrument documenting monitoring visits conducted during the audit period. The missing parts included the fiscal review, Carl Perkins compliance issues, and business/industry assessment. Also, some of the completed portions did not have the evaluator's name listed.
- Improvement plans either were not received or were received late by the department. Eighteen improvement plans (64.3%) were not received by the department, as of November 19, 2003. The cover letter associated with the monitoring report stated that the "system's plan for improvement should be developed and ready to submit in approximately four to six weeks." Of the ten improvement plans that were received, five were dated after the six-week deadline. The date of these plans ranged from one to 101 days late (with an average of 48 days late). Also, no sanctions were imposed on subrecipients for not submitting an improvement plan.
- The department did not always date stamp improvement plans when they were received. Without the date stamp, the department has no way of determining whether or not the responses were received in a timely manner.

Office of Management and Budget Circular A-133, Section 400(d)(3), requires the pass-through entity to "monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved." The department cannot determine subrecipient compliance with applicable regulations without an adequate

system of monitoring. Furthermore, funds could be used for objectives not associated with the grant, and subrecipient errors and fraud could occur and not be detected.

### **Recommendation**

The Assistant Commissioner over the Vocational Education Program should ensure the development of an adequate tracking system. This tracking system could be used to ensure that the monitoring visits are documented using all of the applicable portions of the evaluation instrument and that improvement plans are received in a timely manner.

### **Management's Comment**

We concur. A checklist has been developed for regional consultants to use to insure that all required forms are included when finalizing a monitoring report. In addition, a system is now in place to document receipt of improvement plans from school systems. Further, no monitoring report will be approved as completed until the improvement plan is received. A follow-up procedure to be performed by the regional consultants is now in place to provide additional assurances that improvement plans are received. An annual follow-up will be conducted until it is determined that all recommendations are addressed by the local school systems. The improvement plans are now being date stamped by the department as we receive them from the local systems.

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## STATUS OF PRIOR AUDIT FINDINGS

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### State of Tennessee *Single Audit Report* for the year ended June 30, 2002

Audit findings pertaining to the Department of Education were included in the *Single Audit Report*. The updated status of these findings, as determined by our audit procedures, is described below.

#### **Resolved Audit Findings**

The current audit disclosed that the Department of Education has taken action to correct the previous audit findings concerning the need to improve areas of deficiency and noncompliance over subrecipient monitoring and the need to comply with state laws regarding the composition of the Advisory Council for the Education of Students with Disabilities.

#### Most Recent Financial and Compliance Audit

Audit report number 02/089 for the Department of Education, issued in March 2003, contained an audit finding that was not included in the State of Tennessee *Single Audit Report*. This finding was identified during the audit of the Tennessee State School Bond Authority, and its status was pursued as a part of that audit.